

**RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA**

**ANNUAL FINANCIAL STATEMENTS**

**YEARS ENDED AUGUST 31, 2013 AND 2012**

RURAL WATER DISTRICT NO. 21,  
OSAGE COUNTY, OKLAHOMA  
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YEARS ENDED AUGUST 31, 2013 AND 2012

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## Independent Auditor's Report

Board of Directors  
Rural Water District No. 21, Osage County, Oklahoma

### **Report on the Financial Statements**

We have audited the accompanying financial statements of Rural Water District No. 21, Osage County, Oklahoma as of August 31, 2013 and 2012 and for the years then ended as listed in the table of contents. These financial statements are the responsibility of the District's management.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America as described in Note 1; this includes determining that the accounting principles generally accepted in the United States of America is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such an opinion. An audit also includes evaluating the appropriateness of accounting policies used, and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

## **Opinions**

In our opinions, the financial statements referred to above, present fairly, in all material respects, the financial position of Rural Water District No. 21, Osage County, Oklahoma, as of August 31, 2013 and 2012; the changes in financial position; and of cash flows thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

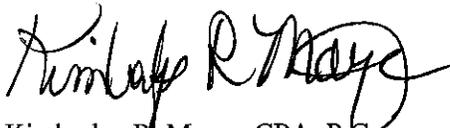
## **Other Matters**

### Required Supplementary Information

Rural Water District No. 21, Osage County, Oklahoma has not presented the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America require to be presented to supplement the basis financial statements. Such missing information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basis financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

## **Other Reporting Required By Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated September 10, 2013 on our consideration of Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain laws, regulations, contracts and grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting and compliance.



Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
September 10, 2013

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT  
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
*GOVERNMENT AUDITING STANDARDS*

Board of Directors  
Rural Water District No. 21, Osage County, Oklahoma

We have audited the financial statements of Rural Water District No. 21, Osage County, Oklahoma as of and for the year ended August 31, 2013 and have issued our report thereon dated September 10, 2013. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered Rural Water District No. 21, Osage County, Oklahoma's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 21, Osage County, Oklahoma's internal control. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 21, Osage County, Oklahoma's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a certain deficiency in internal control that we consider to be a material weakness.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control that there is reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs to be a material weakness.

**Compliance and Other Matters**

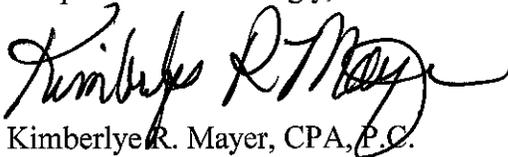
As part of obtaining reasonable assurance about whether Rural Water District No. 21, Osage County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **Response to Findings**

Rural Water District No. 21, Osage County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Rural Water District No. 21, Osage County, Oklahoma's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Kimberly R. Mayer, CPA, P.C.  
Blackwell, Oklahoma  
September 10, 2013

RURAL WATER DISTRICT NO. 21, OSAGE COUNTY, OKLAHOMA  
SCHEDULE OF FINDINGS AND RESPONSES  
YEAR ENDED AUGUST 31, 2013

**Material Weakness Communicated In Prior Year:**

**Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:**

**Criteria:**

The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

**Condition:**

Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

**Cause:**

The entity's limited size has made it difficult for management to fully segregate the duties.

**Effect or Potential Effect:**

Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the water billing and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

**Recommendation:**

The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

**Board's Response:**

The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

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RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF NET POSITION  
AUGUST 31, 2013 AND 2012

ASSETS

	2013	2012
Current Assets:		
Cash and cash equivalents	\$ 311,726	\$ 279,810
Reserve and grant funds	91,107	83,968
Certificates of deposit	41,053	40,820
Total Current Assets	443,886	404,598
Restricted Reserves:		
Debt service	73,679	69,694
Debt service reserves	64,001	64,001
Total Restricted Reserves	137,680	133,695
Noncurrent Assets:		
Work in progress	796,591	270,933
Property & equipment (net of accumulated depreciation) (Note 3)	352,350	430,602
Total Noncurrent Assets	1,148,941	701,535
Total Assets	1,730,507	1,239,828
Deferred Outflows:		
Loan costs (net of accumulated amortization) (Note 5)	10,814	13,904
Total Assets and Deferred Outflows	\$ 1,741,321	\$ 1,253,732

LIABILITIES AND NET POSITION

Current Liabilities:		
Accounts payable	\$ 7,923	\$ 2,757
Notes payable (current portion) (Note 6)	75,000	70,000
Total Current Liabilities	82,923	72,757
Non-current Liabilities:		
Notes payable, long term (Note 6)	415,113	395,000
Total Liabilities	498,036	467,757
Net Position:		
Net investment in capital assets	658,828	236,535
Restricted for debt service	137,680	133,695
Unrestricted	446,777	415,745
Total Net Position	1,243,285	785,975
Total Liabilities and Net Position	\$ 1,741,321	\$ 1,253,732

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED AUGUST 31, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
Operating Revenues		
Water service fees	\$ 371,952	\$ 304,341
Late penalties	8,730	7,412
Miscellaneous income	8,760	13,949
Total Operating Revenues	<u>389,442</u>	<u>325,702</u>
Operating Expenses		
Payroll	20,089	18,027
Payroll taxes	1,743	1,416
Utilities	65,202	46,008
Repairs and maintenance	37,086	12,164
Water costs	5,431	3,738
Contract maintenance fees	39,350	37,440
Janitor expenses	3,600	3,400
Meter audit and reading fees	9,237	8,275
Operating supplies	5,506	9,633
Office supplies and postage	4,759	4,441
Insurance	3,457	3,366
Professional fees	3,117	1,915
Depreciation and amortization	81,342	81,342
Telephone	906	905
Water testing and monitoring	1,437	2,377
DEQ annual fees	5,578	10,725
Miscellaneous	6,536	2,368
Total Operating Expenses	<u>294,376</u>	<u>247,540</u>
Operating Income (Loss)	95,066	78,162
Nonoperating Revenue (Expense)		
Interest income	3,780	1,884
Grant income	350,000	91,120
Memberships	21,000	10,000
Interest expense	(12,536)	(13,828)
Total Nonoperating Revenue (Expense)	<u>362,244</u>	<u>89,176</u>
Increase (Decrease) in Net Position	457,310	167,338
Net Position, beginning of year	<u>785,975</u>	<u>618,637</u>
Net Position, end of year	<u>\$ 1,243,285</u>	<u>\$ 785,975</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF REVENUES AND EXPENSES AND CHANGES IN NET POSITION  
YEARS ENDED AUGUST 31, 2013 AND 2012

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The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA  
STATEMENTS OF CASH FLOWS  
YEARS ENDED AUGUST 31, 2013 AND 2012

	2013	2012
Cash Flows From Operating Activities:		
Cash received from customers	\$ 380,682	\$ 311,753
Other operating cash receipts	8,760	13,949
Cash payments to suppliers for goods and services	(148,429)	(109,072)
Cash payments to contractors	(39,350)	(37,440)
Cash payments to employees	(20,089)	(18,027)
Net cash provided (used) by operating activities	181,574	161,163
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(525,658)	(58,727)
New borrowings	95,113	
Principal paid on notes and loans	(70,000)	(70,000)
Interest paid on notes and loans	(12,536)	(13,828)
System development fees	21,000	10,000
Net cash provided (used) by financing activities	(492,081)	(132,555)
Cash flows from investing activities:		
Grant funds	350,000	91,120
Interest on cash and investments	3,780	1,884
(Increase) decrease in restricted and savings accounts	(11,357)	(15,327)
Net cash provided (used) by investing activities	342,423	77,677
Net increase (decrease) in cash and cash equivalents	31,916	106,285
Beginning cash and cash equivalents	279,810	173,525
Ending cash and cash equivalents	\$ 311,726	\$ 279,810
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (loss) from operations	\$ 95,066	\$ 78,162
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	81,342	81,342
Changes in assets and liabilities:		
Increase (decrease) in payables	5,166	1,659
Net cash provided (used) by operating activities	\$ 181,574	\$ 161,163

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 21,  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 1 -SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

Rural Water District No. 21, Osage County, Oklahoma was created under Title 82, Oklahoma Statutes 1991, Sections 1324.1-1324.26, as amended, of the laws of the State of Oklahoma. The purpose of the District is to furnish and supply to owners and occupants of property within the corporate limits water and related facilities and services.

The District is a governed entity by a Board of Directors that acts as the authoritative and legislative body of the entity. The Board is comprised of elected board members, four of which are elected as officers of the District.

Basic of Accounting

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

Net Position

Net position presents the difference between assets and liabilities in the statement of net position. Net investment in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net positions are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

Budget

The District is not legally required to adopt a budget.

RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 2 - CASH AND CASH EQUIVALENTS:

The District considers all operating checking accounts and certificates of deposit with a maturity of three months or less to be cash equivalents.

NOTE 3 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the assets or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended August 31, 2013 and 2012 was \$78,252 and \$78,252 respectively. The following is a summary by category of changes in property and equipment:

<u>Category</u>	<u>8/31/12</u>	<u>Additions</u>	<u>Deletions</u>	<u>8/31/12</u>
Land	\$ 6,000	\$	\$	\$ 6,000
Waterline system	2,712,010			2,712,010
Buildings and improvements	28,367			28,367
Office equipment	8,339			8,339
Totals	<u>2,754,716</u>			<u>2,754,716</u>
Accumulated depreciation	<u>(2,324,114)</u>	<u>(78,252)</u>		<u>(2,402,366)</u>
Net	<u>\$ 430,602</u>	<u>\$ (78,252)</u>	<u>\$</u>	<u>\$ 352,350</u>

NOTE 4 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

Cash and restricted reserves are maintained in financial institutions which provide coverage to depositors through the Federal Deposit Insurance Corporation.

NOTE 5 – LOAN COSTS:

The costs of the OWRB loan are being amortized over the life of the loan which is 8 1/2 years.

RURAL WATER DISTRICT NO. 21  
OSAGE COUNTY, OKLAHOMA  
NOTES TO FINANCIAL STATEMENTS  
YEARS ENDED AUGUST 31, 2013 AND 2012

NOTE 6 – NOTES PAYABLE:

The District had several loans outstanding with the USDA Rural Development. Collateral for these loans was a first real estate lien on the entire water system and revenues. On December 20, 2004 the District borrowed \$930,000 from the OWRB to refinance the USDA Rural Development loans and to establish a debt reserve fund. The new loan is for eighteen years and has an interest rate that is adjusted every six months. In the fiscal year ending August 31, 2009 this note was converted to a fixed rate note with an interest rate of 2.841% and a maturity date of October 1, 2017.

The following is a detail of the OWRB loan for the years ended August 31, 2013 and 2012:

Balance, August 31, 2011	\$	535,000
Principle payments		<u>(70,000)</u>
Balance, August 31, 2012		465,000
Principle payments		<u>(70,000)</u>
Balance, August 31, 2013	\$	<u><u>395,000</u></u>

The District is constructing a new water treatment plant. The District was awarded a CDBG grant of \$350,000 and a loan of \$1,600,000 from OWRB to finance this project. As of August 31, 2013, the District had received the CDBG grant of \$350,000 and loan advances of \$95,113.

The following is a summary of the District's future annual debt requirements:

<u>Year Ended</u>	<u>Payments</u>	<u>Principle</u>	<u>Interest</u>
8/31/14	\$ 181,933	\$ 170,113	\$ 11,820
8/31/15	85,062	75,000	10,062
8/31/16	88,003	80,000	8,003
8/31/17	85,607	80,000	5,607
8/31/18	87,971	85,000	2,971
	<u>\$ 528,576</u>	<u>\$ 490,113</u>	<u>\$ 38,463</u>

NOTE 7 – ESTIMATES:

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.